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SUBJECT: RED TAPE GRIPES AGAIN DOMINATE VIETNAM'S DISCUSSIONS WITH
THE PRIVATE SECTOR

REF: A) Hanoi 50 (Assistance as Window of Opportunity);
B) 08 Hanoi 1329 ("Private Sector Tells Vietnam")

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¶1. (U) Summary: At a semi-annual meeting between the Government and the private sector, local and international businesses criticized Vietnam's multiple administrative hurdles, inefficient tax regime, and lack of transparency as they recommended ways to speed up investment in the banking, mining and tourism sectors. GVN officials acknowledged most of the criticism, but did not make specific commitments to address the problems raised. Many other sectors, including some Vietnamese business associations, are clamoring to join the VBF, one of the few such fora for frank exchanges with the GVN. End Summary.

ADMINISTRATIVE REFORM AT THE TOP OF THE AGENDA

¶2. (U) The need to cut inefficient and unnecessary administrative procedures was a major theme throughout the June 2 Vietnam Business Forum (VBF) in Ho Chi Minh City, hosted by the World Bank and Vietnam's Ministry of Planning and Investment (MPI) in conjunction with the mid-term Consultative Group meeting (between the donors and the GVN). "For many foreign companies, the complexity of administrative procedures and the sometimes uncoordinated and inconsistent implementation of laws and regulations between different authorities can present a serious hindrance to running a successful business in Vietnam," the head of the EU Chamber of Commerce, told the audience, which included dozens of Government of Vietnam (GVN) officials, including ministry heads. AmCham once again raised widespread corruption as one of the biggest taints on Vietnam's reputation. All of the chambers of commerce, international and local, requested increased transparency.

ADMINISTRATIVE REFORM EFFORTS

¶3. (U) A presentation on Project 30 --a Prime Minister-led administrative reform effort supported by the USG designed to improve the business investment climate (REF A)-- listed the most egregious cases of red tape, such as import and investment licensing, and notarization of foreign documents, as examples where immediate remedial action could be taken. One of the most interesting presentations was by the (all Vietnamese) Young Business Organization (YBO) of Dong Nai, in southern Vietnam. They called for:

--clearer bankruptcy procedures (the World Bank reports bankruptcy proceedings in Vietnam take an average of 5 years, with creditors recovering only 18% of what they are owed);

--streamlined procedures for setting up new businesses (environmental and safety requirements are particularly hard on small and medium sized enterprises, he noted);

--improved "equitization" (partial privatization of state-owned assets) rules (the YBO asserted that 75% of Vietnamese businesses will not buy stocks from State Owned Enterprises (SOE)); and

-- the promulgation of a Freedom of Association law to clarify the rules to set up businesses and trade unions. This last call was echoed by the (again all Vietnamese) Ho Chi Minh City Union of Business Associations.

PLEA FOR TAX CERTAINTY

14. (U) The private sector representatives cited the lack of tax certainty and the heavy tax burden as two of the biggest disincentives to doing business in Vietnam. AmCham urged the GVN to manage its tax policy with more clarity, predictability and efficiency. The current sliding scale nature of the local tax regime creates an unstable market for investment, according to many business leaders. "With many of our members shouldering effective tax burdens of up to 50% or more, we believe that further improvement is both possible and necessary in order to further stimulate economic activity," the EuroCham President stated. Recommendations included providing tax incentives to promote private insurance, clarifying real estate taxes, lifting or removing the cap on advertising and promotional expense deductions, and easing the tax burden for those living in Vietnam for less than one year and on income generated outside Vietnam. Minister of Planning and

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Investment Vo Hong Phuc acknowledged that last year's tax law was "unrealistic in some areas." He added that investment in Vietnam faced two "bottlenecks:" infrastructure and human resources. To address this, he said, the GVN is reviewing the financing of education, and working to improve cooperation with provincial and local governments.

BANKING

15. (U) The Banking Working Group (BWG), representing more than 30 international financial companies operating in Vietnam, urged the GVN to flesh out its long term plans for foreign investment in this sector. "There is a need for clarity on quantum [of ownership] and timing of further increase in shareholding," the BWG Chairman, who is also Standard & Chartered Bank's top official in Vietnam, stated. Additionally, the BWG recommended that the GVN set up an accredited rating agency in Vietnam, which would considerably ease capital raising through corporate bonds and commercial paper. Vice Finance Minister Tran Xuan Ha responded that his Ministry was reviewing the Securities Law and would pass proposed revisions to the National Assembly in 2011. He reaffirmed the GVN's commitment to "equitizing" Vietnam's SOEs as stated in the Road Map to 2010 approved by the Prime Minister, but acknowledged that "progress has been slow." He said the BWG's proposal for a pension fund was "in line with the development of intermediary institutions" and committed to study the concept. He also noted that Vietnam's stock market would be open for an additional 15 minutes in the morning and that a pilot program would begin soon to test the utility of an afternoon session. The State Bank of Vietnam publicly endorsed many of the BWG's recommendations, but then noted that the issues were the purview of the Ministry of Finance.

MINING INVESTORS DETERRED

16. (U) The Mining Working Group (MWG) asserted that Vietnam's mining sector is the most heavily taxed in the world (particularly because most taxes are production rather than profit based) and blamed lack

of investment in the sector on policy inconsistency. The Ministry of Finance responded unequivocally that the GVN considered minerals "non-renewable resources and does not encourage their export." The Ministry of Natural Resources and Environment's Department of Geology announced that the terms of exploration would be increased from 24 to 36 months, and per the recommendations of the MWG would be extendable (additional information is available on dgmrv.gov.vn).

CHANGES IN VISA POLICIES TO ATTRACT MORE VISITORS

¶7. (U) The Tourism Working Group (TWG) asked the GVN to dramatically improve the current "visa on arrival" procedures for nationals from the United States, Hong Kong, Taiwan, Australia, France, Canada and other countries that have a "long standing commitment to Vietnam and can help provide for economic growth." The TWG described current procedures as "complicated, mysterious and intimidating," and said that Vietnam finds itself at a disadvantage with neighboring countries with laxer visa entry policies like Thailand, Indonesia, and Malaysia. Furthermore, the TWG suggested that the GVN create a visitor's bureau and undergo a comprehensive sales and marketing campaign to rebrand Vietnam as a tourism destination.

COMMENT: FOLLOW UP IS KEY

¶8. (U) The GVN officials acknowledged most of the criticism leveled at the Government. Although, as is customary at these meetings, the GVN did not commit to specific action it did not refute the criticism either. The semi-annual Business Forum is rapidly becoming the preeminent venue for airing complaints and making recommendations to the GVN. Where it can, the GVN does its best to follow up -- such as suspending the new personal income tax after it drew sharp criticism at the last VBF. However, some of the most oft-cited problems, like the lack of transparency and infrastructure development, have no easy fixes. The private sector is wise to keep pressing these issues nonetheless and hold the GVN accountable before this public and, often effective, forum.

¶9. (U) This telegram was coordinated with ConGen HCMC.

PALMER